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STRATEGIC MATERIALS PROGRAM

OF THE

ECONOMIC COOPERATION ADMINISTRATION

REPORT

OF THE

SPECIAL SUBCOMMITTEE ON FOREIGN ECONOMIC COOPERATION

OF THE

SENATE APPROPRIATIONS COMMITTEE

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LETTER OF TRANSMITTAL

UNITED STATES SENATE,
COMMITTEE ON APPROPRIATIONS,
February 15, 1952.

Hon. KENNETH MCKELLAR,
Chairman, Committee on Appropriations,
United States Senate, Washington 25, D. C.

MY DEAR SENATOR: I am presenting for your approval a report on the strategic materials program of the Economic Cooperation Administration. The report necessarily includes a discussion of the strategic materials procurement problems of the United States.

It should be pointed out that during the investigation and during the time of the writing of the report several changes in the organizational set-up of the strategic materials procurement program of the United States have taken place. The President by Executive order has created the Defense Materials Procurement Administration and has placed therein all agencies formerly dealing with this program, including the Strategic Materials Branch of ECA. During this period the Congress passed the mutual security program which takes under its control the Economic Cooperation Administration.

It should further be pointed out that no attempt is made in the report to discuss the impact of the decisions of the recently created International Materials Conference on the strategic materials problems of the United States.

It is felt, however, that although many changes have been made the criticisms and suggestions contained within the report are still valid and can be helpful in the operation of the newly created agencies.

Sincerely,

PAT MCCARRAN,
Chairman, Special Subcommittee on Foreign Economic Cooperation of the Senate Appropriations Committee.

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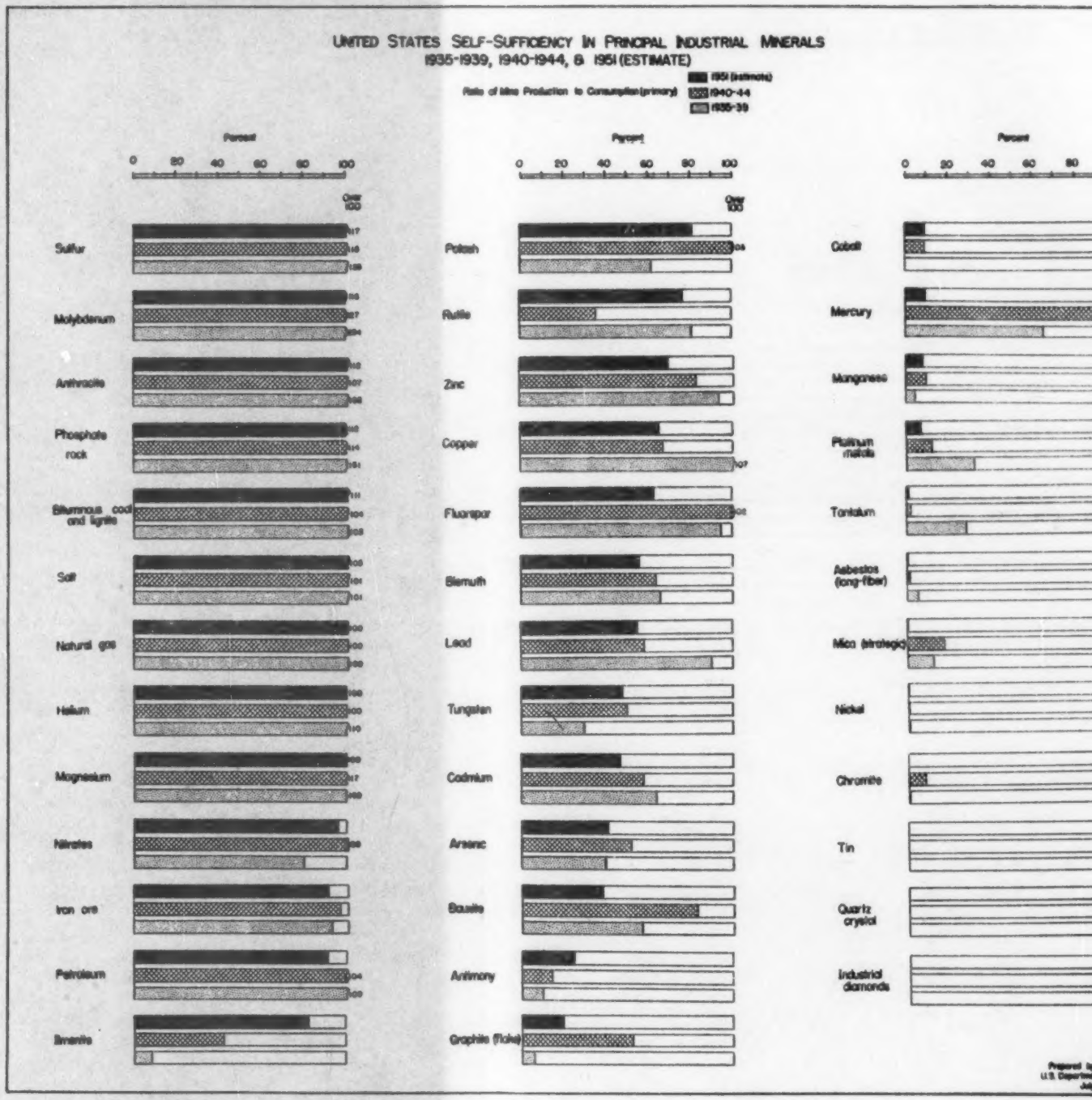

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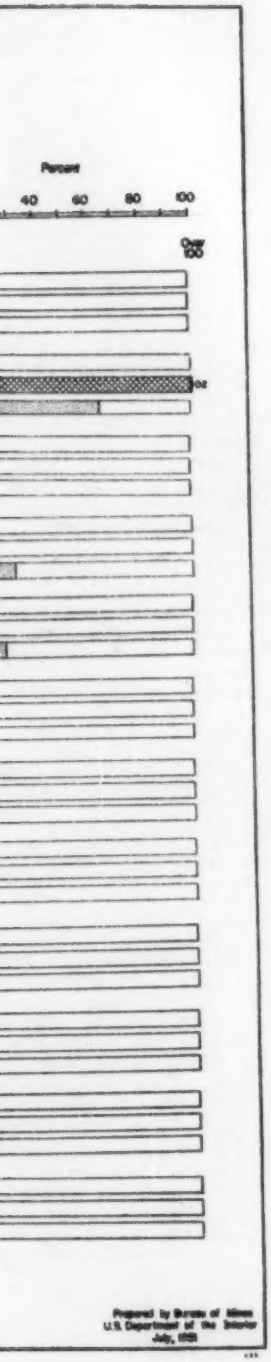

STRATEGIC MATERIALS PROGRAM OF THE ECONOMIC COOPERATION ADMINISTRATION

INTRODUCTION

Within the past few years it has become more and more evident that the United States does not possess an unlimited or inexhaustible supply of raw materials. Increasing demands of civilian production coupled with almost constant rearmament needs during the past decade have seriously taxed available sources of supply and pointed up the increasing dependence of the United States on foreign countries as a source of necessary materials.

Shortages of certain strategic or critical materials during World War II created a serious emergency supply situation. During that period domestic supplies of 38 strategic or critical minerals or metals were insufficient and foreign sources were depended upon to make up for the shortages. Foreign sources also supply 27 metals or minerals not available within the United States. Due to recent technological advancements such as jet planes, rockets, guided missiles, and atomic weapons, minerals and metals not even considered during World War II have become essential. Many of these are not available within the borders of the United States.

Military experts agree that the next war will be won by the side that can produce the most, in the shortest period of time. In short, any future war will be won by the availability of raw materials plus the facilities to turn those materials into the tools of war. The availability of necessary raw materials will be the deciding factor.

Study of the accompanying chart, depicting the lack of self-sufficiency of the United States in some of the necessary materials, will show that a revitalized and expanded program is necessary to the security of the free world and the maintenance of the democratic form of government upon which our Nation is founded.

BACKGROUND

International developments within the past 2 years have made necessary increased supplies and additional sources of strategic and critical materials. These materials are necessary for stockpile purposes and are urgently required for the increased industrial use occasioned by the fast-growing defense rearmament program.

With the advent of the Korean war and an accompanying need for a speed-up in the rearmament program, it became increasingly apparent to those responsible for United States planning that this country was dangerously short of many materials necessary to the expanded arms program.

A reexamination of source of supply clearly showed that many of the needed materials could not be produced in sufficient quantities

domestically and must be obtained from foreign sources. One of the most effective methods used to overcome the shortage has been the strategic materials program of the Economic Cooperation Administration.

In establishing the Economic Cooperation Administration, Congress provided authority for ECA to aid in the procurement and development of strategic material supplies in countries that agreed to participate in the over-all recovery program. The central aim of the strategic materials program was set forth in section 115 (i) of Public Law 472, Eightieth Congress, as amended by Public Law 47, Eighty-first Congress, and reads as follows:

> The Administrator shall, to the greatest extent practicable, initiate projects for and assist the appropriate agencies of the United States Government in procuring and stimulating increased production in participating countries of materials which are required by the United States as a result of deficiencies or potential deficiencies in its own resources.

Other provisions of the act further affirm the intent of Congress that countries of Europe should emphasize in their recovery programs the production of strategic and critical materials and that the United States should share in this production. Section 115 (b) (5)[1] provides that each participating country shall agree to "facilitate the transfer to the United States" of materials in which we are deficient. Section 115 (b) (9)[2] requires that they agree to negotiate "a future schedule of minimum availability of deficiency materials for United States needs" and to give Americans "new 'suitable protection for the right of access' " in the development of mineral deposits, etc. And section 117 (a)[3] directs the Administrator to use ECA funds to increase production of deficiency materials.

The Administrator is further authorized to employ, in addition to the local currency allocated as local currency funds, "such other means available to him under this title as he may deem appropriate." Within the limits of appropriations and contract authorizations of the Emergency Procurement Service, the Administrator is further instructed to "enter into contracts in the name of the United States for the account of the Emergency Procurement Service for the purchase of strategic and critical materials in any participating country." Section 115 (h)[4] of the act indicates that it was the intent of Congress that a principal use of the 5 percent "counterpart" funds should be for the acquisition of deficiency materials.

In brief, in early 1948 Congress directed the Economic Cooperation Administration to supply the United States stockpile and United States industrial consumers with those materials, classified as "strategic and critical."

The outbreak of hostilities in Korea, in the summer of 1950, served to point up and reemphasize again that if the United States was to carry successfully the burden of rearming itself and the free world, it would have to secure strategic and critical materials quickly, in ever-increasing amounts, and wherever such might be available. The committee had been advised that a new plan and concept was in the making, which later became known as the Mutual Security Program. The committee was concerned with the rate at which sources of stra-

[1] Public Law 472, 80th Cong.
[2] Ibid.
[3] Ibid.
[4] Public Law 472, 80th Cong., as amended by Public Law 47, 81st Cong.

tegic and critical materials, both at home and abroad, were being developed and utilized. Its jurisdiction did not run to domestic sources, but the committee was convinced that in any event the domestic supply would have to be supplemented; or, in many cases where no domestic sources were available, our supplies would have to come entirely from abroad.

To find a partial answer to these problems it was deemed advisable by the members of the Special Subcommittee on Foreign Economic Cooperation of the Senate Appropriations Committee to make a study of the ECA strategic materials program. To accomplish this study a staff member of the committee was directed to make a field investigation of the principal ECA countries. The purpose of this investigation was to make a thorough study of the strategic materials program, to determine whether or not the program was the best approach to the materials shortage problem faced by the United States today. The investigation included a study of specific provisions, a study and evaluation of the procurement phase of the ECA strategic materials program, a study of the mineral potentialities of the participating countries and their dependent territories as sources of additional materials and as outlets for United States investment in mineral producing enterprises, an investigation of the willingness of the participating countries to expand mineral production and the extent to which foreign officials were cooperating with the ECA, and finally, a study of the attitude of the businessmen, industrialists, financiers, and people of the participating countries toward the entire program.

ECA missions in London, Paris, The Hague, Brussels, Rome, Athens, Ankara, and Lisbon were visited, as well as colonial possessions of Belgium, Portugal, France, and the United Kingdom in Africa and Asia. In the Far East visits were made to Ceylon, Singapore, Djakarta, Bangkok, Hong Kong, Taipeh, and Tokyo. Local government officials, businessmen, and United States officials were interviewed in these and other cities. When time allowed visits were made to mines, mills, and smelters in the various countries. The staff member worked closely with all ECA representatives in the various missions that were concerned in any way with the strategic materials program.

The study was further made to determine the advisability of devoting large sums of United States money to the purpose of increasing production of the minerals and metals in foreign countries with the possible effect of curtailing the same productions from American mines and foreign mines owned by American companies. The use of funds supplied by the American taxpayer for financing competition for American producers is definitely something to be considered in determining the advisability of the ECA strategic materials program. Overstimulation may, in some instances, lead to the extinction of domestic industry. This would tend to weaken rather than strengthen the strategic materials position of the United States.

The staff member also attended the strategic materials conference in Paris, July 17–21, during which time the aims and problems of the program were thoroughly discussed. The meeting was attended by those delegated with the responsibility of carrying out the strategic materials program from Washington, D. C., the Paris office of the special representative for ECA, and from all of the European countries participating in the ECA program. Also in attendance was a Euro-

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pean representative of the Emergency Procurement Service of the General Services Administration. All phases of the program were discussed in detail and a country-by-country progress report was made by those present from the various areas. Interchange of ideas and discussions of the many existing problems and their possible solutions were carried on in detail by the conferees.

FINDINGS

The strategic materials program of ECA can be divided into two main divisions:

1. The procurement of strategic materials through direct purchasing, either for immediate delivery or delivery over a period of time.
2. The development or expansion of sources of strategic metals or minerals.

Procurement program

The procurement program was designed primarily to fill the immediate needs of the United States stockpile from foreign sources. It was presumed, and rightly so, that many of the European sources of supply had inventoried stocks on hand. These so-called shelf goods were the result of accumulations caused by overproduction immediately after World War II, and the result of the termination of contracts at the war's end. Other surpluses resulted from expanded facilities installed to increase production of these necessary minerals and metals for use by the industrial plants operating at full scale during the war years.

Soon after ECA came into existence, procurement of these materials began. Total purchases of these necessary materials from 1948 through August 31, 1951, totaled $101,000,858, of which $80,205,160 came from counterpart funds available in the various countries. The other $20,795,698 was supplied from Emergency Procurement Service dollars. EPS is the authorized purchasing agent for stockpile needs.

The procurement program has worked fairly well, supplying the stockpile with many of its needed items from sources unavailable to ordinary purchasers. In fact, the program worked so well that, in many cases, it resulted in the acquisition of all the available free world supplies of the materials.

This buying program has operated effectively as a stopgap method of filling the needs of the stockpile and would have continued to work effectively if world conditions had not changed from what might be termed normal to an emergency situation brought on by increased Communist pressures throughout the world.

Much criticism has arisen over the United States buying policy. Many countries complained bitterly that the United States is buying all available material, leaving the producing country with nothing available for its own needs. Some of the ECA personnel have become so engrossed in their tasks of rehabilitating countries that they have "dragged their feet" on the procurement program for fear that it would slow down their own rehabilitation efforts.

There seems to be a lack of realization among ECA personnel that buying and selling in world markets, especially when a seller's market exists, can best be accomplished by market place methods instead of

long-drawn-out contract negotiations. As a result of the red tape procedures many of the producers feel it is too much trouble to sell to the United States. The normal desire of the producer is to sell his product as quickly and easily as possible to the highest bidder. If the United States cannot meet these conditions or give some added advantage, such as providing needed materials in return, the producer will dispose of his product elsewhere. The attitude still exists among some ECA officials that the United States is doing foreign producers a favor by buying their product, that the producers owe some strange sort of loyalty to the United States and should sell to them regardless of the world market picture. The fact that the United States is attempting to buy scarce materials in a competitive world market has evidently not had sufficient consideration in outlining buying procedures for ECA operations.

There seems to be no long-term schedule of needs available for ECA officials to use as a guide in seeking out materials for the stockpile. The needs are established by the Munitions Board and subject to change at the will of that Board; thus, long-term planning is made almost impossible. The high specifications for materials set by the Munitions Board further limits the suppliers to those producing only the highest grade materials, thus automatically eliminating as direct suppliers many producers of lower grade necessary materials. In many instances producers prefer to sell their entire output, both low and high grades, to one consumer rather than sell the preferred to one outlet and take the chance of being unable to sell the less preferred grades.

Development program

Supplementing the procurement program, which is designed to fill the immediate needs of the United States from readily available sources of supply, is a development program. The latter is designed for the long-range needs of the United States and its primary purpose is to insure a future continuing supply of strategic and critical materials from abroad. To carry out this long-range purpose, the aid extended under the development program may be broken down into four categories of assistance:

1. Expansion of existing facilities to increase production.
2. Development of known ore bodies for new production.
3. Exploration of potential ore bodies to determine the feasibility of further development.
4. A combination of the first three categories above.

The development program is carried on by means of loans, which are made on a matching basis, with the operating company being required to put up at least 25 percent of the total project cost. In order to conserve dollars and reduce the burden on the United States Treasury, counterpart funds are used in all cases where practicable. Dollar loans are used only when it is necessary to obtain machinery or equipment in the United States.

In all cases loans are repayable in strategic and critical materials produced. A further condition imposed is that the United States must be given an option to purchase any materials produced in excess of that required to repay the amount of the loan.

The advisability of ECA participation is determined on the individual merits of the project under consideration.

Although means were available and the necessity for the development of sources of strategic materials should have been apparent, the program was extremely slow in starting. The development program is just now reaching a stage where its results can be depended on as a source of needed materials.

This slowness in starting the program was due in large measure to the apathetic attitude of Washington ECA officials. This do-nothing attitude led to inadequate staffing at country mission levels of personnel capable of handling a strategic-material program. The lack of any policy at all levels for many months, followed by a very indefinite policy at best, left country missions with their hands tied as to what approach to take toward the development program.

It was noted that the absence of policy resulted in either absolute inactivity on one hand, or intense activity in searching out projects that might qualify without any guide as to what was wanted.

In any event, little was accomplished in either instance.

There seemed to be an apparent disregard by most ECA officials as to the importance and necessity of the strategic materials program to the defense efforts of the United States and a free world. There were no indications that the program had been given a "must" or "priority" classification. There seemingly was a feeling that the strategic materials program was contrary to the spirit and purpose of the whole ECA program. This feeling undoubtedly led to resistance to projects designed to benefit the United States, and to the use of the 5 percent counterpart funds for that purpose.

A more sympathetic attitude by ECA officials toward the strategic materials program from its inception would have led to simplified procedures, expedited approval of certain projects, and, most importantly, would have tended to improve the morale of those working on the problem of procuring materials for the United States. It is only fair to say that while some opposition to the program still exists it is fast dying out as the gravity of the international situation intensifies.

With the outbreak of the war in Korea in June 1950, it became apparent to ECA officials that they had been neglecting a most important phase of their over-all program. Immediate steps were taken to speed up the development of strategic materials sources. Attempts were made to simplify procedures and define policies. Personnel was shifted to work on problems that should have been solved. Much progress has been made during the last year and a half, but that progress could have been made under much more favorable conditions during the early part of the program.

One of the biggest factors that has hindered the development of strategic materials sources is the indirect control exercised by the Munitions Board over the program. The Munitions Board was created to determine the long-term raw material needs of the United States and to procure and store those materials for the Nation's stockpile. The policy of the Board in determining those needs has fluctuated from month to month and has resulted in a constant increase and decrease of estimates. Of necessity the ECA has used the requirements as set forth by the Munitions Board as a guide in determining what projects should be considered. The inability of the Munitions Board to determine long-term needs that could be used as a basis for the development program has been a severe handi-

cap. The further fact that known stockpile needs are based on a 5-year period has also tended to slow down development of projects that would extend beyond the 5-year limitation.

The failure of Washington ECA officials to delegate authority or responsibility to the country missions and/or the office of the special representative in Paris has impeded the progress of the program because of the time and distance factor involved. The inability of Washington ECA personnel to comprehend fully the problems arising when dealing with free peoples, companies, and governments under foreign laws has been one of the biggest handicaps of Washington overcontrol.

Complicated procedures developed by Washington economists, accountants, and attorneys have slowed down and in many cases stopped completely negotiations on strategic material projects. These procedures require that all papers be processed, checked, reviewed, and approved by an amazing number of persons. A small minor suggestion or irrelevant objection by anyone along the line of experts is enough to bog down the entire process and start the proposal on a second or third trip around the lengthy circuit. An objection as minor as a rephrasing of a sentence is enough to delay the entire process several weeks.

As a general rule, the personnel handling the strategic material program at country mission or field levels are good though numerically inadequate. They have for the most part mining, engineering, or business experience and are generally hard workers. They see their job primarily as securing for the United States needed materials as fast and as cheaply as possible. They try to accomplish that purpose. Being composed, for the most part, of men enlisted from industry and business they are strongly against red tape and rule-book procedures so prevalent in government. In some instances, top-flight men have resigned, feeling their time wasted and efforts hamstrung by red tape created by bureaucratic-thinking superiors.

It is admittedly a difficult task to get top-flight men who understand the technical problems arising in such a program. However, there is a definite need for hard-driving administrators at all levels willing to push the program. The program is one that has to be sold before the United States can benefit.

There is presently no concentration of the development or procurement of strategic materials under one head; several different Government agencies are handling the problem separate and distinct from other agencies in the same field. While there have been some attempts to coordinate effort, generally such efforts have been unsuccessful. Lack of over-all coordination and control may lead to unwise development of marginal projects by one agency where it is possible other agencies in the field could do a better and cheaper job and procure the same results.

There is a tendency of ECA officials to resent inquiries by Congress into their workings and a definite reluctance to discuss problems. It was noted that this feeling is strongest in Washington and gradually decreases as distance from Washington increases. Men farthest from Washington seemed happy to have an opportunity to discuss their problems and difficulties. In every instance ECA personnel were extremely courteous and cooperative and seemed willing to discuss general phases of the program.

CONCLUSIONS

General

1. The field investigation clearly demonstrated the great need for centralizing the strategic material procurement program in one agency; such agency to have complete authority over all phases of the program. Since the field investigation was made, the President by Executive order has created the Defense Materials Procurement Administration and has placed therein all agencies formerly dealing with this program. However, because of the specialized nature of its function the Munitions Board was not included in the reorganization.

Although the operating personnel formerly with the Strategic Materials Branch of ECA have now been placed in the Defense Materials Procurement Administration, the criticisms contained herein relative to their past operations are still valid. It is the hope of the committee that these criticisms will be helpful in the operation of the new agency. Unless basic problems pointed up by the criticisms are solved, the new agency will progress no faster than formerly.

2. A basic criticism of the strategic materials program was that of necessity all operations had been restricted to ECA countries. The committee cannot emphasize too strongly that this policy must be discontinued and that strategic and critical materials must be immediately procured wherever they are available. In other words, this program is an emergency program and must be taken out of the category of being purely another means of economic assistance for the recipient country.

3. The same terms and provisions should apply to both the domestic and foreign operations for expansion, development, or exploration projects. If any advantages or concessions are made they should first be offered to domestic producers. It is most important to our national security and economy that every opportunity be given to the development of domestic sources of strategic materials.

4. Counterpart funds should be used wherever possible, but the program should not be limited by the availability of counterpart funds. If the United States Government needs supplies and materials, and it is assumed that it does, it must be willing to furnish adequate funds to finance projects necessary to furnish the materials in quantities needed.

5. There should be a complete overhauling and revision of stockpile goals and policies basing the needs on a 5-year basis. This 5-year limitation has tended to restrict the development of large mining operations which require much longer than a 5-year period to be amortized. It will be noted that in supplying the stockpile the United States has practically eliminated two sources of supply by purchasing all available shelf-good items and developing operations that provide for immediate returns. The other source remaining is through long-term development. The mineral wealth of the world is not unlimited. After the "cream" has been removed it takes a longer period to get to the "milk." There are good indications that, with the exception of a few spots throughout the world, the cream has already been removed. The high specifications for materials set for the stockpile have acted as a deterrent to the production of lower grade ores that are not only in short supply, but would be acceptable to industry. Under the existing set-up financial aid is not available unless the production comes up to certain high standards set by the

Munitions Board. Industry, now suffering from short supply, can use, and oftentimes prefers to use, materials lower in grade than those being stockpiled. Some method should be evolved whereby these lower grade deposits necessary to industry could be developed with United States aid.

6. Further enlargement of the programs should be made by expanding the list of strategic materials to include those in the "necessary" class. These necessary materials are those needed by industry, but not considered in the stockpile category. A good example of this type of commodity is sulfur.

7. A complete revision of buying practices and procedures would greatly expedite the procurement of materials and in many instances save considerable amounts of money. There is necessity for procedures allowing spot purchases by procurement agents. The ability to buy when the commodity is available and the price is right is necessary to economical operation. The existing procedures calling for long-drawn-out negotiations and contract revisions and approvals by numerous persons involve long periods of time. This time lapse between offer and final acceptance has in many instances been so long that a new price rise has gone into effect necessitating further negotiations. These time-consuming procedures create additional expense on one hand and slow down procurement on the other.

8. An extensive policy of exploration should be initiated wherever possible to determine the presence or likelihood of mineral occurrence in unexplored areas. These preliminary explorations could be followed up by intensive explorations if indications pointed to the advisability of such action. Knowledge developed from this over-all exploration program would prove invaluable in determining future policies and programs for procuring necessary materials.

9. There is a necessity for the establishment of a definite risk policy outlining what basis is to be used in determining the advisability of projects offered for consideration. The necessity of knowing how much chance or risk the United States is willing to take in determining the feasibility of a project is self-evident.

10. A definite program to delegate more responsibility and authority to field levels should be initiated. It is incredible that top men with adequate experience in their fields, and presumably hired for their knowledge and ability, are not permitted to make even minor decisions. Instead of being allowed to make decisions, they are relegated to the position of making recommendations subject to long-drawn-out reviews by persons oftentimes having little knowledge of the subject. This cumbersome policy not only leads to delay, but causes much misunderstanding which, in turn, creates a reluctance in producers to deal with the United States. The entire program would be speeded up if confidence and authority were placed at country administrative levels within certain agreed-upon limits.

COUNTRY-BY-COUNTRY SUMMARY

To understand better the existing conditions, a country-by-country summary of the progress and problems of the development program has been included in this report. The summary considers the financial, labor, material, political, and technical factors affecting the program

in each country as well as a brief discussion of projects in operation and the possibilities for future projects on the basis of known reserves.

United Kingdom

By far the biggest recipient of ECA aid for the purposes of the purchase and development phases of the strategic materials program, Great Britain's overseas possessions are perhaps the greatest source of strategic materials available to the free world today. Such necessary materials as industrial diamonds, kyanite, cobalt, bauxite, copper, tantalite, and platinum have been the subject of ECA contracts with Great Britain. Other necessary materials such as rubber, sisal, palm oil, tin, lead, and zinc are also produced in great quantities in British possessions.

Through the use of ECA funds, both dollars and counterpart, the United States has been able to purchase considerable amounts of materials necessary to the stockpile from United Kingdom sources. Further assurance that a supply would be forthcoming has been established by the use of ECA funds for the expansion and development of mines, mills, and smelters in British colonial areas. Through participation in this expansion program, the ECA has been able to develop an increased supply of necessary materials for the free world and its fight against communism.

The greatest number of ECA-financed projects are located in the African possessions of Great Britain. Loans have also been advanced for the expansion of bauxite production on the island of Jamaica in the British West Indies.

The ECA strategic materials program has met with some disfavor from the financial institutions and big industrial plants of Great Britain which feel, on one hand, that they should have been allowed to participate in the program, and, on the other hand, that the United States is taking materials badly needed by British industry. It is very doubtful that these financial institutions would have participated in the mining expansion program because of the degree of risk involved. Furthermore, these institutions would not have been able to supply the dollar credits necessary to provide the American machinery and equipment essential for the expanded operations. The attitude of British heavy industry has slowly softened as a thorough understanding of the workings of the program has become evident. There still remains, however, the hard core of British industry that seems to feel that the Americans should be allowed to spend their money to expand British sources of raw materials but that no one but British industry should receive any advantage from the expanded supply.

Repetition of the idea that the United States stockpile is a stockpile for the free world, of which Great Britain is an important part, is finally taking effect and the British people, as a group, are sympathetic with the program.

As part of the strategic materials expansion program the ECA agreed to assist the British Colonial Geological Survey by supplying 26 United States geologists and 30 topographic surveyors to the British group to aid in the exploration necessary to subsequent development of the mineral potential in the various areas. Twenty-two men recruited by the United States Geological Survey are already in the field, assigned to various branches of the British group.

This survey program was primarily inspired by the necessity of determining reserves of strategic materials in the relatively unexplored areas of British Africa. Basically, the idea is sound and the necessity is apparent, but with the exception of a few shining instances of individual initiative the program has accomplished very little. Because of lack of organization and control by ECA officials these ECA-financed geologists have become, for all intents and purposes, orphans. They have been given no authority whatsoever; they have no official liaison with other Government agencies. If a discovery is made they have no way to forward samples, contract for assays, or even notify United States officials of their discoveries. They have been delegated such minor tasks as mapping ancient lava flows and doing other work not even remotely connected with strategic materials. What could have been a most successful program has turned out to be a waste of essential manpower and technical know-how. Until the program is straightened out by supplementary agreements between ECA and the British Geological Survey, restricting the studies of American geologists to the investigation of strategic material sources, the American geologists' hands are tied.

Other sources of strategic materials and metals under British control are Singapore, Malaya, Hong Kong, British North Borneo, and other possessions in the Pacific-Indian Ocean areas. These areas will be discussed separately.

The total amount, including both dollars and counterpart, obligated for purchases of strategic materials in the United Kingdom is $44,744,994. The amount obligated for development projects is $45,209,799.

France

France, with its overseas territories, has been one of the major participants of the ECA-sponsored strategic-materials program. Since the start of the program in France in 1949, through August 31, 1951, 11 purchase agreements and 14 development contracts have been entered into. Negotiations are nearly completed on several other purchase or development contracts while numerous other possibilities are under active consideration.

Purchase possibilities of surplus strategic materials have decreased rapidly since the inception of the program. The only materials of any quantity that are produced beyond the normal French needs are crucible grade graphite and phlogopite mica. Until production of other materials is increased considerably, further outright purchases will be limited. As a result, ECA has been placing more and more stress on the exploration and development phase of the program. In addition to providing direct aid to participating companies and individual projects, the French mission of ECA has done much to aid the strategic-materials program through the advance of funds for the development of access roads, ore docks, electrification, and exploration and mapping projects.

While the French program has shown as much progress as any of the other countries it has been slowed somewhat by the hypersensitive political situation prevailing in France. The strategic-materials program has been a favorite target of Communist propaganda attacks which proceed along the line that "France's resources are being exploited for American war preparations." As a result of the propa-

ganda, the French Government has adopted an attitude of extreme reservation toward strategic-materials activities, limiting publicity on the program to a bare minimum. However, this fear has been lessened considerably in recent months and more publicity has been forthcoming on all strategic material matters with the exception of the atomic-development program.

In recent months contracts between purely French companies and the ECA for the development of strategic materials have eliminated fears on the part of the French—which have existed since the beginning of the program—that the program is an attempt by the Americans to wedge American companies into French possessions at the expense of French nationals. The French are beginning to recognize the value and welcome the association with American interests when the latter have been able to make a real contribution of capital and/or technical knowledge.

The absence of adequate transportation and power facilities in the French colonies of Africa, coupled with the ever-present labor shortage, has tended to slow down the development and expansion of ECA-financed projects.

France and its colonies are a source of chrome, cobalt, copper, lead, zinc, alumina, graphite, industrial diamonds, nickel, and mica.

Total obligations, both dollars and counterpart, in purchase agreements amount to $23,796,148, while amounts obligated for development work amount to $23,065,428.

Portugal

Portugal, with its African territories of Angola and Mozambique, is extremely important as a potential supplier of strategic materials and minerals necessary to the defense efforts of the free world.

Continental Portugal is a source of lead-zinc, manganese, tungsten, and beryl. There is also some indication that tin may exist in commercial quantities in Portugal. The mines are, as a general rule, small properties, production of which can be increased tremendously with the application of machinery and modern methods. To expand production sufficiently it will be necessary that contracts be entered into with ECA to provide the necessary funds. For the most part, the potential projects in Portugal have been examined carefully by ECA mining engineers and pending projects have been classified on a priority basis.

The big draw-back to the strategic materials program in Portugal has been the lack of counterpart funds. ECA aid to Portugal did not begin until about 12 months after aid had started to most of the other European countries. This tardiness in starting the program and the comparatively small amounts granted to Portugal have resulted in the limited amount of 5 percent funds being available for strategic materials development work.

Indications point to the fact that Angola, on Africa's west coast, and Mozambique, on the east coast, are potentially great sources of strategic materials. While small mining operations have existed since the founding of the colonies, large-scale operations have been virtually nonexistent. Recent policy changes have enabled outside interests to enter into the mineral field in the colonies. Conditions for granting concessions have been relaxed to some extent and in some cases the Government has taken steps to see that concessionaires do

more than "sit" on the property in the hope that a deal can be made solely on the basis of property potential. Again, one of the drawbacks to increased production is the lack of a long-term market guaranty which would allow the amortization of increased capital expenditures.

Both Angola and Mozambique are strategically located in relation to the great mineral fields of the Belgian Congo and Northern and Southern Rhodesia, and provide the nearest ports of exit for materials produced in these regions. The port of Beira in Mozambique is being enlarged and improved so as to eliminate bottleneck conditions which limit the movement of raw materials from Africa to the United States. The Beira project provides for the mechanization of ore loading, the building of a wharf, the rearrangement of the marshaling yards, dredging the channel, and construction of necessary shops and warehouses. The Beira project is ECA-financed to the extent of 1.1 million in United States dollar funds, for the purchase of needed American equipment, and the equivalent of 1.1 million in Netherlands 5 percent counterpart for payment to the job contractor. The Portuguese Government will provide about 1 million in escudos to finance the local costs of the port improvement. Beira is the ocean terminal of the railroad running through Northern and Southern Rhodesia. The railroad is the only economical means of delivering materials from those interior areas to shipping ports.

The Portuguese Government has recently announced a 5-year plan for the development of Angola. The plan includes the enlarging of the ports of Luanda, Lobito, and Mossamedes. The most important of these is Lobito, which is the ocean terminal point of the railroad running from Northern Rhodesia through the highly mineralized southern sector of the Belgian Congo and across central Angola. Lobito, recognized as one of the world's best natural harbors, will be improved by the extension of wharves and warehouses, and supplementation of special ore-loading equipment. The Portuguese Government is proceeding immediately with the Lobito project, and it is expected that it will be ready to handle increased tonnages from the interior within the next several months. The biggest draw-backs to the development of stragetic material sources in the interior of Portuguese colonies are lack of transportation and power. Extensive exploration projects are also necessary to determine whether or not the areas contain ore reserves of the quantity and quality necessary to supply present-day needs.

The ECA has recently announced the signing of a contract for one of the most needed projects for the further development of sources of stragetic materials in the relatively unexplored areas of Angola and Mozambique. The contract calls for adequate aerial surveys with accompanying ground surveys to determine which districts have a sufficient concentration of mineralization to warrant further studies in the field.

Obligations for purchase contracts amount to $38,770 while moneys obligated for development projects amount to $1,939,187.

Greece

The ECA mining program in Greece has made notable progress. The first problem was to get mining enterprises, wrecked during World War II and during the Greek civil war, back into operation as

quickly as possible. The objective of the program was to create maximum employment in the shortest possible time and to bring about the production of fuel needed domestically and to produce exportable minerals to sell for needed foreign exchange. Much rehabilitation work was necessary because the Germans and Italians had ruined the mines in their efforts to get the most in strategic materials from them. When they left the country they destroyed many of the mines to prevent the Allied Powers from getting them into quick production. Those mines which were not wrecked fell into the hands of Communists who had been instructed to demolish whatever might make employment or help the people. By using funds of the American military aid to Greece and the ECA, it was possible to increase the mineral production from 97,700 tons in 1946 to an estimated 500,000 tons in 1951.

It was soon recognized by ECA that little knowledge of the actual and potential mineral resources of Greece was available. An agreement entered into by the Greek Government and ECA made funds available to bring foreign geologists into Greece to furnish the technical know-how necessary to complete a survey of the mineral resources of the country. This was accomplished by the preparation of a geological map which is presently in the process of being printed. Efforts were made to calculate the existing tonnages and grades of the ore bodies examined while comprehensive descriptions of the major mining areas of the country are available. Aerial photography, as well as the latest technique of photogeology and geophysics, were used simultaneously with the field mapping.

By use of the knowledge gained through this mapping and exploratory process it is now possible for ECA to concentrate its efforts in areas where workable deposits are known to exist. Greece is potentially a supplier of chromite, magnesite, asbestos, nickel, cobalt, lead, zinc, tungsten, molybdenum, antimony, copper, and bauxite for stockpile purposes.

The program is somewhat hampered by import-export restrictions imposed by the Greek Government. In many instances, necessary machinery from the United States and other countries has been held up several weeks while Greek custom officials issued necessary permits and assessed import duties. In many instances, export levies which are placed on mineral products make the difference between profit and loss for marginal operators.

The financial situation in Greece is such that it has become necessary to use United States or other hard currencies for the purchase of any materials or supplies from outside of the country. As a result of the inflated condition of Greek currency, Greece is one of the few ECA countries that has a true counterpart fund surplus. Because of the availability of counterpart funds, a program has been established to help small exploratory projects by advancing Greek drachmas on the sole approval of the Greek ECA mission officials. This procedure has saved considerable time and has helped immeasurably in speeding up the entire Greek program.

At the present time there are eight strategic material projects under way: two are for the development of lead-zinc mines, one is for the development of a bauxite mine, one is for the exploration of lead-zinc, and four are for the exploration of manganese. The bauxite mine is in active operation and material is presently being shipped to Germany

for processing into aluminum, part of which goes to the United States in repayment of the loan. The potential of the property is tremendous and is being developed by modern methods under ECA supervision.

There have been no purchase contracts signed with Greece. Obligations for the development phase of the program amount to $1,595,664.

Belgium

Belgium, through its dependent area, the Belgian Congo, is considered one of the big producers of strategic and critical materials. In addition to uranium, the Congo is an important source of cobalt, copper, zinc, tin, columbo-tantalite, manganese, palm oil, rubber, quinidine, and pyretheum. Also produced are wolframite, cadmium, and bismuth.

The economic organization of the Congo is such that the production of materials is basically within the province of private enterprise. However, the Government retains all mineral rights and as a result has either a right to royalties or share participation resulting from the grant of the right to exploit mineral deposits. While the Government takes no active part in management of the concessions, it can, through indirect means, effectively control management if the need arises.

The Belgian Government has recognized the need for the expansion of the raw materials industry and has undertaken a public works program to make available to industry additional power, transportation, and labor. This public-works program is financed partially with ECA funds.

Most of the companies in the mining field have increased their production over the past few years and are continuing their expansion program at the present time. With minor exceptions these companies appear to have adequate funds to finance these expansion programs. The greatest draw-backs to expansion are the lack of power and transportation facilities and the difficulty in securing necessary supplies and equipment.

Considerable exploration by private companies is being carried forward to assure continued production over a relatively long period. Syndicates of existing and potential investors have been formed to explore areas where concessions have not been given. Activity along these lines has indicated the possibility of discovery of additional ore reserves.

The advancement of ECA funds, either in dollars or local currency, is not the answer to the problem of expanding production in the Congo. Allocation of needed equipment, available only in the United States, would undoubtedly help where the producer has already made up his mind to expand. If substantial increases in production of raw materials in the Congo are to be brought about, either market conditions must be such as to justify the additional expenditure or long-term purchase contracts must be placed with potential producers to guarantee them a chance to amortize their additional investment.

Belgian producers fear what they call the arbitrary and unpredictable nature of the United States Government purchasing activity. They feel that the United States, as the major world purchaser of raw materials, has often worked against the interest of raw materials producers and in the long run against its own interest.

The Belgians, as a general rule, are good businessmen and hard bargainers. They feel that their products should bring as high a price as possible and see no reason why they should sell below world market prices to the United States or any other purchaser. They will bargain on a long-term basis which guarantees a profit to their enterprise whether they operate in a buyer's or seller's market.

Even though the Congo is considered one of the great storehouses of strategic materials, the ECA has expended a relatively small amount, $1,700,000, for development projects. No purchase contracts have been entered into by ECA and Belgium.

Turkey

Turkey is a potential source of strategic and critical materials, but at the present time the metal mining industry is in a stagnant condition. With the exception of chromite, no appreciable quantity of metal or mineral is being produced. The chromite production is, for the most part, a result of small operations. These operations should be expanded considerably, and were it not for the following internal conditions this necessary expansion could be effected:

1. Extreme statism with the accompanying limiting effect on private enterprise.
2. Total lack of risk or venture capital for prospecting and development purposes and a serious deficiency in available operating capital.

The Government owns and controls all mineral rights in the country and the Government is also the biggest mining concern through various agencies or companies that have been created. Private operators have been reluctant to disclose their discoveries or to produce to capacity for fear the Government would cancel their permits or concessions and take over the property and operate it.

The political party now in power in Turkey has taken some steps to create a situation more favorable to private enterprise and encourage an influx of foreign capital. Further indication of the present Government's attempts to encourage foreign capital is evidenced by a new law passed August 1, 1951, guaranteeing foreign investors adequate returns and protection. It is thought by most observers that it will take some time before the effects of this new legislation are felt.

Extensive mineral exploration activities are desired in Turkey to determine just what is available in the mineral field. Available data on mineral potential is a result of cursory investigations of known deposits, but no attempt has been made by either the Government or private industry to explore and prospect areas where minerals may be expected to occur.

As pointed out above, the shortage of capital has necessarily confined activities in the exploration field to the Turkish Government or to ECA-financed projects. At the present time the ECA Turkish mission has developed plans to establish a lead industry. Plans call for the erection of custom smelters and mills and the reopening on a lease basis of several large, developed mines owned by the Government and now idle. Other ECA plans call for the formation of mining corporations to develop mineralized areas of the country. The Turkish mission has also been given authority to make direct loans from Turkish counterpart funds where the mission feels it will further the program.

There are good indications that with adequate development Turkey could be depended upon as a source of chromite, manganese, copper, lead, zinc, cobalt, asbestos, and tungsten.

No purchase agreements have been made with Turkey, and development project obligations have been limited to the equivalent of $194,715, and one contract.

Italy

Little progress has been made by the ECA strategic materials program in Italy. This is due primarily to the fact that Italy is importing the metals and minerals on our stockpile list and can supply only small quantities of mercury, fluorspar, and aluminum to the program. The development phase of the program is confined almost wholly to processing plants.

Before Italy can become a major source of supply it will be necessary for the ECA to develop a long-range program which will include primary exploration and geological mapping work to determine just what is potentially available in Italy.

Italian companies in the mineral field were extremely reluctant to participate in the ECA-sponsored program when it was first announced, but seem to be slowly coming around, at least to the point of inquiring as to the particulars of the program. Even though some of the companies operating in Italy are partially owned by the Government, generally none of the companies is able to finance new or expanded operations. All producers are dominated by the fear of the bottom dropping out of the present metals market and would prefer to work on a limited scale rather than expand without a long-term contract which would at least guarantee the amortization of their investment.

There is a dearth of competent mining engineers and geologists in Italy. Some of the larger companies have a monopoly on the trained men. This situation tends to slow down exploration and development of new reserves. At the present time there is a low ratio of known reserves to the output.

Another draw-back to the expansion of the mining industry is the prevailing labor law in Italy which in effect provides that a man is hired for life. This law brings about a reluctance on the part of the big companies to hire for expansion purposes, thus becoming tied with surplus labor for a longer period than is necessary.

Some of the labor unions, members of which are employed in the mining and allied industries, are communistic controlled. Communist-inspired strikes occur periodically and tend to slow down the production of the entire industry. It was not determined whether or not these strikes were directed primarily against industries supplying rearmament materials, but they nonetheless have an adverse effect upon production of these industries.

While ECA strategic material policy does not allow ECA participation in the development of minerals and metals not included on the stockpile list, it is thought that some program should be worked out that will allow aid to be given to so-called producers of materials essential to the domestic economy of Italy. Such a program would eliminate the necessity of the United States supplying these materials to Italy, thus increasing the foreign capital position of the Italians for other purchases of needed supplies.

Purchase contracts in Italy amount to the equivalent of $13,564,780 while the development program has obligated the equivalent of $1,494,180.

Norway

The ECA strategic-materials program aid in Norway has emphasized the construction of plants for the processing of raw materials. These plants, erected to produce aluminum and columbite (used in jet engines), take advantage of the surplus hydroelectric power in Norway. One of the aluminum plants to be constructed with ECA aid is the largest of all ECA projects, amounting to the equivalent of 24 million in dollars and counterpart funds from three countries. This plant will process bauxite ores from sources all over Europe, many of these sources being financed by ECA.

The possibility of mining development projects in Norway appears to be limited at this time. While some attempt has been made to determine the potential of the country, the surveys for the most part are incomplete and were accomplished on a sporadic basis. Labor is in short supply in Norway and it is most difficult to get the type of labor needed to develop and work mining properties. What labor is available is relatively inefficient.

Private financing in Norway is limited and this condition is not expected to improve because the highly socialistic nature of the Government gives little guaranty to private capital. There is an adequate supply of trained technical men in Norway to supervise any mining or industrial effort.

At the present time a mineral survey is being made to determine the possibilities of mineral production from the northern area of Norway. While no ECA funds are involved in the present survey it is expected that a request for funds will be made if possibilities of sufficient extent are discovered.

Purchase contracts with Norway have obligated the equivalent of $3,522,709 while development projects have obligated the equivalent of $10,465,000.

Germany

ECA financing of strategic materials in Germany has been confined for the most part to the rehabilitation and expansion of existing facilities for aluminum production. Funds have also been advanced for the exploration and development of a lead-zinc deposit, and several fluorspar projects are under consideration.

The existence of conditions favorable to an expanded strategic materials program have helped considerably in increasing the flow of materials from Germany. As a general rule, financing is available from private sources. Although available, such financing is seriously handicapped by the economic and political circumstances prevalent in the area. There is an adequate labor force available to handle any expected expansion of industry and above all there is an adequate supply of highly trained technicians to solve the many problems that arise during expansion periods.

The geology of Western Germany is extremely well known and promises further developments of lead, zinc, and fluorspar reserves. However, the United States cannot expect to benefit solely from these future sources. The expanding economy of Germany, with its huge

manufacturing potential, will need as raw materials nearly all the metals and minerals that can be produced in that area.

The attitude of the financiers and industrialists in particular, and the people in general, is one of cooperation toward the ECA-sponsored program. They are cognizant of the fact that help of one sort or another is needed to get them started on the long road to recovery, and are very thankful that the needed help is being made available.

At the present time Germany is supplying many of the mines and factories of Europe with necessary machinery and equipment, and it is expected that the load of supplying the world with necessary machinery will be slowly taken from the shoulders of the United States as the German industry expands.

Purchase obligations with Germany amount to the equivalent of $1,834,052, while development contract obligations total the equivalent of $16,586,424.

The Netherlands

The formation of the Indonesian Republic from the overseas possessions of the Netherlands eliminated the possibility of strategic material development projects in Netherland territory. With the formation of the Indonesian Republic the Netherlands not only lost their overseas territories but also the chance to develop further the huge potential wealth of the East Indies area. However, century-old trade patterns are still maintained, and the Dutch can be depended upon as an important source of industrial diamonds, quinidine, monazite, and bauxite.

Netherland counterpart funds bave also been used to help in the development of the port of Beira in Portuguese East Africa. Purchase commitments with the Netherlands amount to the equivalent of $12,937,223, while development project commitments confined to the Beira project amount to the equivalent of $1,118,421.

Denmark

Due to its size and lack of colonies, Denmark is expected to play a very minor role in the free world search for strategic materials. ECA counterpart funds from Denmark are being used to help finance the huge aluminum plant in Norway that is presently under construction. The only other ECA-financed project for Denmark is an exploratory project for lead under way in Greenland. Due to the extreme climatic conditions present, this project is progressing very slowly and as yet nothing has been discovered that can be considered economically feasible.

Purchase obligations total the equivalent of $562,182. Obligations for the two above-mentioned development projects total the equivalent of $1,113,105.

Ireland

Plans are going forward to finance through the use of ECA funds a lead-zinc project in Ireland. So far little has been done in that country due to the lack of geological knowledge. The potential is unknown.

Austria, Yugoslavia, Sweden, Iceland

There are no projects pending nor purchase agreements with above-named countries.

Summary, strategic materials contracts signed through Aug. 31, 1951

	Dollars	ECA counterpart	Total
Purchases:			
United Kingdom	[1] $3,437,892	$41,307,102	$44,744,994
France	[1] 16,175,000	7,621,148	23,796,148
Netherlands	[1] 1,101,811	11,835,412	12,937,223
Germany		1,834,052	1,834,052
Italy	[1] 60,000	13,504,780	13,564,780
Norway	[1] 20,995	3,501,714	3,522,709
Denmark		562,182	562,182
Portugal		38,770	38,770
Total, all purchases	[1] 20,795,698	80,205,160	101,000,858
Projects:			
United Kingdom	[2] 13,138,599	32,071,200	45,209,799
France	[2] 7,687,000	15,378,428	23,065,428
Netherlands		1,118,421	1,118,421
Portugal	[2] 1,765,000	174,187	1,939,187
Turkey	[2] 134,000	60,715	194,715
Belgium	[2] 1,700,000		1,700,000
Denmark	[2] 13,105	1,100,000	1,113,105
Italy		1,494,180	1,494,180
Germany		16,586,424	16,586,424
Greece	[2] 102,193	1,493,471	1,595,664
Norway	[2] 465,000	10,000,000	10,465,000
Total, all projects	[2] 25,004,897	79,477,026	104,481,923
Total, all ERP countries, purchases and projects	[1 2] 45,800,595	159,682,186	205,482,781

[1] Emergency Procurement Service.
[2] Economic Cooperation Administration.

FAR EAST

ECA has been unable to carry out strategic-materials operations in the Far East similar to those conducted in other parts of the world. Bilateral agreements between the participating countries of the area and ECA make no mention of strategic materials and include no provisions for carrying out operations of such nature. This omission was considered necessary because of the unsettled political conditions of the area accompanied by apparent distrust of the motives of the United States in wanting to furnish aid in an attempt to strengthen the economic conditions of the countries.

More important has been the disrupting effect of intense Communist activity in most of the countries. This action started soon after the end of World War II, and as a result the countries have never fully recovered from the deleterious effects of the Japanese occupation.

Machinery and equipment necessary for production in mines and beneficiating plants were either worn out or destroyed while under Japanese control. Lack of necessary parts has made repairs difficult and replacement has been almost impossible. Many of the mines were virtually destroyed by Japanese occupation forces in an attempt to strip them of all usable material. Many have been destroyed by Communist activity since the end of the war.

Mines, tin dredges, and rubber plantations located near protected areas have been reopened but Communist-equipped and inspired bandits have prevented the reopening of potential producers in the back country. The evident aim of the Communists is to discourage and disrupt anything that tends to aid the general economic condition of the country.

Despite adverse conditions, production of tin and rubber has gradually increased and has been made available for purchase. Much of this production is obtained under armed guard conditions, maintained by the operating companies for the protection of the workers and the equipment. United States purchases of these two important commodities has been handled by the Reconstruction Finance Corporation and the Emergency Procurement Service under the direction of the Munitions Board and the Defense Production Administration. Agents of the RFC have also been active in facilitating purchases of other strategic materials for the Emergency Procurement Service.

The tin- and rubber-buying policies of the United States have been criticized severely by the countries of the area whose economy is almost wholly dependent on exports of the two commodities. Spokesmen for the countries say the policies of the United States will lead to closing of producing facilities, increase unemployment, and cause economic chaos. They further point out that unrest caused by unemployment makes an ideal target for communistic activity and propaganda, and tends to strengthen the political position of the Communists in the area.

While the mineral potential of the Far East is generally considered unlimited, mineral exploration has not been extensive and little is known of much of the area. Extreme jungle conditions make complete investigation impractical, if not almost impossible. Lack of transportation, communication, power facilities, and labor have also limited activity.

The possibilities of obtaining appreciable amounts of strategic of critical materials from these countries in the near future are extremely limited. However, well-financed companies, well acquainted with operating conditions, are ready to start or resume operations as soon as conditions are favorable to uninterrupted activity and there is a reasonable guaranty of safety. As a general rule financing for these proposed operations is available from private sources. The United States should stimulate any attempt to open up producing properties by making machinery and supplies, obtainable only in the United States, available for such purpose. Guaranteed markets to potential producers in the form of long-term purchase contracts would also stimulate the reopening of properties.

Any attempt to open up producing properties in the area should be encouraged by the United States. Production, leading to self-sufficiency of Far East countries, will lessen the need of supplying those countries with materials needed in the United States for rearming the forces of the free world in its fight against communism.

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